

Additional information

Additional information presenting the accounting principles adopted in the preparation of the report, data on changes in the applied accounting principles, information on adjustments on account of provisions, deferred income tax provisions and assets, and write-offs on the revaluation of assets.

Rules for the preparation of the report

Elektrociepłownia "Będzin" S.A. presents financial statements for the period beginning on 1 January 2021 and ending on 31 March 2021, as well as comparable financial data for the period from 1 January 2020 to 31 March 2020 and as at 31 December 2020.

The financial statements have been prepared to assume that the Company will continue to operate as a going concern in the foreseeable future, covering a period of at least one year from the balance sheet date, within a scope that has not been materially changed. The Management Board is also of the opinion that there are no circumstances indicating a threat to the continuation of operations.

In preparing the report for the period from 1 January 2021 to 31 March 2021, the accounting policies described in the 2020 annual financial statements are applied.

Changes in accounting policy

Elektrociepłownia "Będzin" S.A. has not changed its accounting policy.

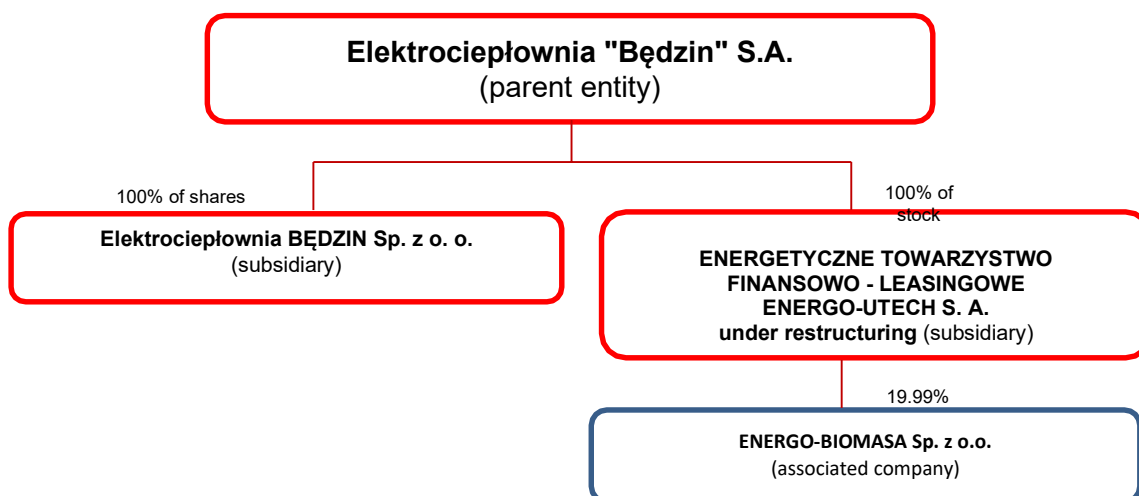
Factors and events which, in the issuer's opinion, influenced the achieved financial results

The Company is engaged in holding and leasing of fixed assets. Financial performance is influenced by the amount of dividends received from subsidiaries.

The Company did not receive any dividends from its subsidiaries during the reporting period.

Information on the seasonal or cyclical nature of the Company's business

There is no seasonality or cyclicity in the Company's operations.

Shares and interests in subsidiaries. Analysis of the impairment indicators**Long-term investments**

Signing of the investment agreement regarding the subsidiary ETFL Energo-Utech S.A. under restructuring

On 31 March 2021, an agreement was concluded between Elektrociepłownia "Będzin" S.A. (ECB) and Poznański Bank Spółdzielczy (Co-operative bank) (Bank 1) and Kujawsko-Dobrzański Bank Spółdzielczy (Bank 2), on the basis of which, receivables of each of the Banks against Elektrociepłownia "Będzin" S.A. arising from bonds (2 bonds with a value of PLN 20 thousand) were exchanged for Shares of ETFL Energo-Utech S.A. under restructuring, and thus transfer of the Shares subject to exchange with Bank 1 and Bank 2, provided that the shares subject to the transaction were released from the pledge. The total number of shares acquired as a result of the exchange is respectively: by Bank 1 - 600 shares. and 600 by Bank 2 respectively, representing approximately 54% of the share capital. After the balance sheet date, agreed changes were made to the Articles of Association of the Subsidiary, i.e. the removal of share preference and granting the Banks the right to appoint 2 members to the 3-person Supervisory Board results in the Banks taking control of ETFL Energo-Utech S.A. under restructuring. The parties also agreed to the principle of a call, exercisable from 31 March 2025 to 31 March 2026. The price for the buy-back of shares, by the current owner Elektrociepłownia

"Będzin" S.A. of ETFL Energo-Utech S.A. under restructuring amounts to PLN 3,870,000.

The banks agreed to provide ETFL Energo-Utech S.A. under restructuring with financing (minimum PLN 12 million) to secure its business activities in order to implement the composition agreement with its creditors - should this composition agreement be concluded.

At the end of 2020, the Management Board of the subsidiary conducted an impairment test on the shares in both subsidiaries.

As a result, the amount of the write-off was left unchanged at the level of PLN 49,600 (write-off for the value of Energo-Utech shares) due to the fact that the restructuring process in Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. under restructuring is underway).

The (summary) results obtained by these entities in Q1 2021 are shown in the table below (without intercompany eliminations):

Data in PLN	Elektrociepłownia BĘDZIN Sp. z o.o.	ETFL Energo-Utech S.A. under restructuring
Fixed assets	135,016	100,045
Current assets	65,070	100,213
Equity	210	(781)
Liabilities	199,876	201
Revenue	61,318	3,169
Costs	(73,980)	(3,726)
Financial result	(12,662)	(557)

Write-off on the value of ETFL Energo-Utech S.A. under restructuring shares

The Company's management has tested the recoverable amount of the held shares. The test was based on an estimated cash flow projection over a 5-year period. When preparing this test, the Company adopted assumptions regarding the continuous operation, realisation of assets held at values presented in the balance sheet, repayment of liabilities in accordance with contractual terms and at values presented in the financial statement, as well as a gradual return to operating business beginning in mid-2021. The conducted test showed that the accumulated flows have a negative value.

Due to the negative cash flow associated with the collapse of liquidity, the negative financial result for 2019, the Subsidiary is unable to settle its liabilities without debt reduction and therefore entered into accelerated restructuring proceedings as of 12 February 2020. The Management Board believes that without the approval of the arrangement by the subsidiary's creditors,

the subsidiary will have to declare bankruptcy. Therefore, the Management Board of the Parent Company decided to recognise a write-off of the value of shares in Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A under restructuring in the full amount.

The Commissioner Judge on 1 December 2020 appointed a Board of Creditors which was constituted on 15 January 2021. As a result of the negotiations with the main creditors and taking into account the entry of an investor, the Company's Management Board updated the restructuring plan together with the arrangement proposals. As the final arrangement proposals have not yet been determined, the Management Board has not submitted the formal document to the Court Supervisor and the court. As at the date of signing this report, the date for voting on the arrangement proposals has not yet been set by the Commissioner Judge.

Write-off of shares in Elektrociepłownia BĘDZIN Sp. z o.o. as at 31 December 2020:

The Management Board of the Company performed an impairment test on the shares in Elektrociepłownia BĘDZIN Sp. z o.o. The future cash flows were estimated using detailed projections for 2021-2039 with no residual period. The projection period corresponds to the life cycle of the asset without incurring significant turbine expenditures. The measurement was based on the weighted average cost of capital of 7.24%. The value in use of the energy segment as of the test date, i.e. 31 December 2020 amounted to PLN 57,356 thousand.

The estimated value in use did not indicate the need to recognise impairment losses at the subsidiary's asset level, but based on the segment's value in use, the value of the shares was adjusted for cash held in the subsidiary, external debt and the change in working capital and was determined to be PLN 33,950 thousand resulting in an impairment of the shares amounting to PLN 33,432 thousand. This write-off was presented in the income statement under Financial expenses/revaluation of financial assets.

The analysis of the existence of grounds includes both external and internal factors. The main rationale for the test included:

- a) A significant increase in the price of CO₂ emission allowances in the fourth quarter of 2020, which translated into a deepening of the loss generated by the Subsidiary;
- b) Increase in debt of the Subsidiary as a consequence of the above.

Key assumptions adopted in the test:

- a) projected average annual inflation over the period 2021-2039 - 2.5%;
- b) the heat energy price results from the current tariff and its projected change, which takes place annually in September; the heat tariff is assumed to increase (taking into account the inflation) by 25% in 2021, by 15% in 2022, by 10% in the following years until 2026, by 5% in 2027-2030 and by 2.5% thereafter;
- c) the price trajectories of electricity, coal and CO₂ for individual years of the projection period were adopted based on a report of a consulting company, which takes into account, among other things, the impact of the electricity supply and demand balance on the market, fuel costs, and the cost of CO₂ emission allowances:

- Coal. Coal prices until 2030 were projected based on an increasing trend. As of 2031, a slightly declining level of coal prices is assumed. A viable steam coal price increase of 10.5% is projected from 2021 to 2039.

- Electricity The adopted forecast of wholesale electricity prices between 2021 and 2039 assumes the impact of the balance of electricity supply and demand, fuel purchase costs and CO₂ emission allowances. Compared to the average SPOT price in 2020, the price for 2021 is assumed to rise by 37%, mainly due to an increase in CO₂ allowance prices and the unrepresentative year of 2020. The COVID-19 pandemic and the introduction of measures (lockdowns) aimed to limit the spread of the disease in the second quarter of 2020

resulted in a significant reduction in electricity demand compared to the previous years, which led to a dramatic drop in energy prices in 2020.

A viable increase in energy prices of 5% compared to 2021 is assumed to take place in 2022, which results from, among other things, the projected further increase in prices of CO₂ emission allowances and coal. Subsequently, a price increase of 4.5% compared to 2022 is projected to take place in the period until 2034, primarily due to significant withdrawals of units after 2025. A price decline of 6.5% (in real terms) compared to 2035 is assumed to occur in the period between 2035 and 2039.

- CO₂. An increasing trend for the price of CO₂ emission allowances was assumed with a perspective until 2039. In 2021, the price of CO₂ emission allowances is projected to be 17% higher than the allowance measurement as of the end of 2020; in 2022, it is assumed to increase by approx. 10% compared to 2021 (in real terms). By 2039, the market price in real terms is assumed to increase by more than 26% compared to its average value in 2021

- a) implementation of the power market mechanism was taken into account - the projection assumes revenues from the power market in 2021 in the amount of PLN 13.2 million, in 2022 - PLN 10.9 million, in 2024 - PLN 14.3 million (based on won auctions). In 2023, due to the planned overhaul of the turbine, participation in additional quarterly auctions was assumed, while in 2025 revenues from the power market were assumed for the first half-year (revenue of 5.5 million PLN);
- b) consideration is given to maintaining the productive capacity of existing tangible assets as a result of necessary replacement investments;
- c) the weighted average cost of capital (WACC) of 7.24% was assumed

The subsidiary Elektrociepłownia BĘDZIN Sp. z o.o., whose shares are valued at PLN 33,951 thousand as at the balance sheet date, incurred a significant loss in 2020, mainly as a result of a reduction in the procurement of thermal power from the main thermal energy customer, fluctuations in electricity prices and, above all, an unprecedented increase in the price of CO₂ emission allowances. Since December 2020, there has been a drastic increase in quotations of CO₂ emission allowances, caused mainly by speculative operations on international financial markets, which resulted in a 47% increase in EUA prices since the beginning of 2021 and a year-on-year increase of 135%.

As the key participant in the energy system of the Silesia-Dąbrowa agglomeration, the Subsidiary Company focuses on ensuring continuity of heat energy supply to the inhabitants; therefore, the available funds were primarily used to secure payments for coal, other production materials and absolutely necessary repair works performed during the summer downtime. Measures have also been undertaken to reduce emissions in 2021 and subsequent years, by introducing biomass co-firing and more efficient use of the existing installation with regard to the economics of CHP production. The problem of rising emission allowance prices is one that affects many in the energy industry and a comprehensive approach to tackling the issue is expected, as the industry could be threatened by the spectre of bankruptcy for smaller and medium-sized energy producers.

In the event that the assumed plan is not implemented, due to the significant financial burden threatening the Company in connection with the above sanctions, the continuation of the Subsidiary's operations will be dependent on the Management Board of a company in the energy sector taking, within a short period of time, formal actions provided for in the restructuring or bankruptcy law, which may significantly affect the value of the shares of this company and thus the financial proceeds planned from their sale and, consequently, the ability to settle the obligations under the bonds.

Provisions

Provisions for liabilities shall be measured at least at the balance sheet date at a reliably substantiated estimated amount. The Company establishes provisions for certain or highly probable future liabilities the amount of which can be reliably estimated,

in particular for the costs of services relating to a given reporting period and performed in subsequent reporting periods and for long-term and short-term employee benefits. The financial effects of the established provisions are classified as operating expenses, other operating expenses or financial expenses respectively, depending on the nature of the operations to which the future liabilities are related. The valuation of provisions for jubilee bonuses, retirement benefits, disability benefits, posthumous severance payments and unused holiday leaves is performed on the basis of an actuarial valuation prepared by a professional entity entered on the list of actuaries and being a member of the Polish Society of Actuaries.

Tables regarding changes in long-term and short-term provisions are presented below.

Change in short-term provision for pensions and similar benefits (in thousand PLN)	31 March 2021	31 March 2021
a) opening balance	-	-
b) closing balance	-	-

Change in long-term provision for pensions and similar benefits (in thousand PLN)	31 March 2021	31 March 2021
a) opening balance	1	1
b) closing balance	1	1

Change in other short-term provisions (in thousand PLN)	31 March 2021	31 March 2021
a) opening balance	34	34
b) increases	-	-
c) use (due to)	-	-
examination of the balance sheet	-	-
d) closing balance	34	34

Deferred tax provisions and assets

Deferred tax provisions are set at the amount expected to be paid in the future in respect of taxable temporary differences. The amount of deferred tax provisions is determined taking into account the income tax rates applicable in the year when the tax obligation arose.

Assets on account of deferred income tax are determined in the amount to be deducted from income tax in the future, due to negative temporary differences which will reduce the income tax base in the future, and the deductible tax loss determined in accordance with the prudence principle. The amount of deferred tax provisions is determined taking into account the income tax rates applicable in the year when the tax obligation arose.

Deferred income tax assets (in thousand PLN)	31 March 2021	31 March 2021
provisions for liabilities	59	139
tax loss	73	267
TOTAL	132	406

Deferred tax liabilities (in thousand PLN)	31 March 2021	31 March 2021
the difference between the carrying amount and the tax value of a leased fixed asset	551	551
TOTAL	551	551

Information on material transactions of acquisition and sale of tangible non-current assets

The Company has not made any material acquisitions or sales of tangible non-current assets during the period from 1 January 2021 to 31 March 2021.

Prior period errors

As at 31 March 2021, the statement does not include any correction of prior period errors.

Information on changes in economic conditions and business conditions

At the end of 2019, news from China regarding COVID-19 (coronavirus) appeared for the first time. In the first months of 2020, the virus spread around the globe while its negative impact involved many countries. Although the situation is constantly changing at the time of publication of this financial statement, it appears that the negative impact on global trade, production and the entity/group of companies may be more serious than originally expected. As the situation is still developing, management believes that it is not possible to provide quantitative estimates of the potential impact of the current situation on the entity. The Company's Management Board believes that the situation caused by the coronavirus pandemic will not have a direct impact on the Company's operations as a holding company. However, the impact of the Covid-19 situation may be seen as a result of the change in the condition of the subsidiaries caused by negative economic events related to the pandemic and the lockdowns announced by the government. The Company's Management Board recognises threats resulting from the situation in the subsidiaries (restructuring in ETFL Energo-Utech S.A. under restructuring, electricity price fluctuations and reduction of heat orders affecting Elektrociepłownia BĘDZIN Sp. z o.o.) which may translate into a lack of dividends from subsidiaries and the need to raise funds for operating activities. The situation may change dramatically throughout 2021 due to another possible wave of coronavirus, the associated restrictions and their impact on the macroeconomic situation.

Due to the critical period of preparation of financial statements during the pandemic period, the submission of information to the Auditor and the final versions of the financial statements have been significantly delayed.

Information on credits, loans and guarantees

Shares in subsidiaries of Elektrociepłownia "Będzin" S.A. constitute collateral for the financing granted to the Company in the form of registered pledges.

In addition, the Company has the following contingent liabilities:

1. On 22 July 2016, The Company acceded to the debt of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (subsidiary) stemming from three factoring agreements concluded on 22 July 2016 with regard to purchase and

financing of lease receivables nos.: 879/07/2016, 880/07/2016 and 881/07/2016, under which PKO BP Faktoring SA seated in Warsaw granted the Debtor a financing limit totalling PLN 20,000,000 (say: twenty million Polish zlotys) until 21 July 2021. In accordance with the agreement, the liability of the Joint Borrower and the Debtor is joint and several liability, and the Factor may demand full or partial performance from both debtors jointly or from each of them separately. The loan balance as of 31 March 2021 was PLN 4,028 thousand. The subsidiary received from PKO Faktoring a grace period in repayment of installments until June 2020, and then applied for another grace period until completion of accelerated composition proceedings or until the sale of buses, assuming payment from November 2020 of reduced installments of PLN 30 thousand.

2. On February 2019, the Company issued a blank promissory note with a blank promissory note agreement as security for repayment of a revolving credit facility of PLN 1,300 thousand granted to Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO- UTECH S.A. under restructuring by Poznański Bank Spółdzielczy. The balance of the revolving credit facility as at 31 March 2021 was PLN 903 thousand. The credit is not being repaid on account of the fact that the Subsidiary has entered a restructuring process. The credit is 80% secured by the Polish Development Fund.
3. On 19 July 2019, the Company issued a blank promissory note with a blank promissory note agreement as security for repayment of an investment credit facility of PLN 6,612 thousand granted to Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO- UTECH S.A. under restructuring (subsidiary) by mBank S.A. The balance of the credit facility as at 31 December 2020 was PLN 5,086 thousand. The credit is being repaid on an ongoing basis.

The total value of guarantees granted by Elektrociepłownia "Będzin" S.A. for repayment of liabilities to the ETFL Energo-Utech S.A. under restructuring (subsidiary) amounts to PLN 27,912 thousand. The Management Board has analysed the risks related to the power of the creditors to enforce the guarantees. Until a composition agreement with the creditors is reached, the Subsidiary should repay its liabilities on an ongoing basis, and the creditors cannot terminate the agreements or enforce the guarantees. During negotiations of composition proposals, the Management Board of the Issuer will be agreeing with the creditors on separate composition proposals related to the guarantees. Should negotiations with the creditors fail and the subsidiary be at risk of bankruptcy, the creditors may demand the full amount of the debt from the guarantor. Credits granted to the subsidiary are also secured against its assets; the Management Board estimates that, as at the balance sheet date, the value of these assets is PLN 6,756 thousand, which means that the potential exposure of the Company on account of granted guarantees, taking into account the balance of liabilities as at 31.12.2020, i.e. PLN 10,017 thousand is PLN 3,261 thousand. The Management Board of the Company is of the opinion that the proposals presented during composition proceedings will be accepted by the creditors of the subsidiary, and thus the contingent liability will not have to be repaid; nevertheless, an adverse development of the situation may threaten the liquidity of the Company.

Transactions with affiliated entities

The Company did not conclude transactions with affiliated entities on conditions other than market conditions.

Financial Instruments

The Company has not made any changes in the valuation of financial instruments. The Company has not made any changes in the classification of financial assets.

Information regarding the issue, redemption and reimbursement of debt and capital securities

Long-term liabilities under debt securities relate to PLN 16,761 thousand from the issue of bonds, which was carried out in order to finance the purchase of shares of Energetyczny Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The issuance took place on April 13, 2015 and the total nominal value of the issue was PLN 30,000 thousand. The bonds bear interest at the reference rate of WIBOR 6M and a margin of 4.5 percentage points. In 2015 and in 2019, the Group purchased treasury bonds amounting to PLN 13,800 thousand to redeem them.

According to current report no. 2/2019 dated 10 April 2019, the bonds will be redeemed on 10 April 2022. The bonds are secured by a pledge on 100% of the shares of the subsidiary Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.

The Company does not hold and has not issued any other debt or equity securities.

Liabilities under debt securities are planned to be repaid by the Parent Company with the funds it obtains from the sale of its subsidiary.

Information on paid (declared) dividend

The Company did not pay dividends during the period from 1 January 2021 to 31 March 2021.

Events after the balance sheet date

After the balance sheet date, the Company entered into a conditional agreement to dispose of investment property for PLN 650 thousand.

Contingent liabilities and contingent assets**Agreements with the Company's creditors**

In March 2021, the Company signed agreements with the Creditors concerning the prolongation of the repayment of liabilities:

- agreement with one unrelated creditor deferring the amount of PLN 673 thousand until June 2022.
- agreement with the subsidiary Elektrociepłownia BĘDZIN Sp. z o.o. deferring payment of liabilities in the amount of PLN 5,407 thousand. until June 2022.
- As of the date of this statement, negotiations are underway with one of the lenders to reschedule instalments of the liability of PLN 910 thousand, three due instalments of which have not been paid on time, i.e. by 31 March 2021. These negotiations have not been completed.

Information about non-payment of a loan or credit or violation of material provisions of a loan or credit agreement.**Commitment covenants:**

The Company has liabilities under issued bonds in the amount of PLN 16,200 thousand. and interest accrued as at the balance sheet date in the amount of PLN 227 thousand. In 2020 financial year, the company generated a net loss of PLN 32,343 thousand. mainly due to write-downs on shares in subsidiaries. The Management Board reviewed the terms of the bond issue, specifically the following condition:

"no loss of the Company's assets by more than 10%, which may affect the Company's ability to meet its obligations under the bonds". The Company's Management Board believes that none of these conditions (including the one quoted) have been breached. The Management Board's analysis has been supported by the evaluation of the Company's legal counsel and, accordingly, the Management Board believes that the Company is further entitled to present these liabilities

as long-term and assume cash outflows on the bonds only in April 2022.

Other information that may affect the assessment of the property, financial situation and financial result

In the reporting period, there were no other additional events that might significantly affect the assessment of the property, financial situation and financial result of the Company.

Bartosz Dryjski - Member of the Management Board

Kamil Kamiński - Member of the Management Board

Poznań, 31 May 2021